

Message Text

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COMMERCE FOR OED/MEPD AND OIM

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TAGS: BENC BEXP VE
SUBJ: MAJOR PROJECTS CORPOZULIA STEEL AND COAL

REF: (A) CARACAS 3359 (B) STATE 98276, (C) STATE 89905

SUMMARY: PROPOSED LAW FOR FINANCING ZULIA COAL AND STEEL PROJECTS FORMALLY GIVES DECISION-MAKING AUTHORITY TO NATIONAL EXECUTIVE; CORPOZULIA IN COORDINATING ROLE. IN CONGRESSIONAL TESTIMONY ON BILL, GOVT OFFICIEAL ESTIMATED PRIVATE PARTNER FOR STEEL PROJECT WOULD BE PICKED IN SECOND HALF OF YEAR. BRITISH AND LOCALLY-LED CONSORCIA REGARDED AS FRONT-RUNNERS. VENEZUELAN INVESTMENT FUND AND CORPOZULIA REACH AGREEMENT ON RESPECTIVE SHARES IN STATE-OWNED ENTITY FOR COAL PROJECT WITH MAJORITY SHARES TO BE HELD BY CORPOZULIA; COMPANY TO BE FORMED IN THREE MONTHS. CALL FOR BIDS FOR ENGINEERING SERVICES CONTRACT FOR COAL PROJECT DELAYED. MINISTER OF ENERGY AND MINES ANNOUNCES PLANS FOR A STATE-OWNED HOLDING COMPANY, WITH DIRECT PARTICIPATION OF REGIONAL DEVELOPMENT ORGANIZATIONS, TO EXPLOIT VENEZUELA'S COAL RESOURCES. END OF SUMMARY.

1. BEGIN UNCLASSIFIED. THE PROPOSED LAW SUBMITTED BY THE
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NATIONAL EXECUTIVE TO THE VENEZUELAN CONGRESS FOR THE CORPOZULIA STEEL AND COAL PROJECTS (REF A) CONSISTS OF THREE SHORT ARTICLES. THE FIRST AUTHORIZES THE EXECUTIVE, DIRECTLY OR BY MEANS OF PUBLIC INSTUTITUIONS AND STATE ENTERPRISES CHOSEN BY IT, TO EXECUTE THE PROGRAMS AND MAKE THE NECESSARY DECISIONS TO PROVIDE THE ZULIA REGION WITH STEEL AND COAL INDUSTRIES IN ACCORD WITH THE AREA'S NATURAL RESOURCES AND THE INDUSTRIAL DEVELOPMENT

REQUIREMENTS OF THE COUNTRY. UNDER ARTICLE 2 THE EXECUTIVE WILL DIRECT THE VENEZUELAN INVESTMENT FUND (FIV) TO PARTICIPATE IN THE PROGRAMS AND WILL INCLUDE IN THE RESPECTIVE ANNUAL BUDGETS THE RESOURCES NECESSARY FOR THEIR EXECUTION. UPON COMPLYING WITH THE PERTINENT LEGAL FORMALITIES, THE EXECUTIVE WILL PROCEED TO RAISE THE ADDITIONAL FUNDS REQUIRED TO FINANCE THE PROJECTS. ARTICLE 3 NAMES CORPOZULIA TO COORDINATE THE EXECUTION OF THE PROJECTS. IN THE "EXPOSITION OF MOTIVES" ACCOMPANYING THE PROPOSED LEGISLATION THE COST OF THE STEEL MILL IS ESTIMATED AT 10.9 BILLION BOLIVARES; THE COAL PROJECT, 455 MILLION, AND RELATED AND INFRASTRUCTURE PROJECTS(THERMOELECTRIC PLANT, WATER SUPPLY,URBAN IMPROVEMENTS, INDUSTRIAL PARK, RAILROAD) AT 3.5 BILLION.

2. HECTOR HURTADO OF THE FIV, FINANCE MINISTER LUONGO AND FERENANDO CHUMACEIRO OF CORPOZULIA TESTIFIED ON THE PROPOSED LEGISLATION AT CONGRESSIONAL HEARINGS APRIL 26. LEGISLATORS QUESTIONED WHETHER THE GOV SHOULD INITIATE A SECOND STEEL PLANT, GIVEN THE AVAILABILITY OF CHEAP STEEL IN THE WORLD MARKET AND THE PROBLEMS OF SIDOR (WHICH RECENTLY REPORTED A LOSS OF 400 MILLION BOLIVARS FOR 1977) AND ALSO EXPRESSED CONCERN ABOUT THE INCREASED DEBT BURDEN FOR THESE PROJECTS. GOVT WITNESSES JUSTIFIED THE STEEL PROJECT IN TERMS OF A POSSIBLE CHANGE IN STEEL PRICES IN THE NEXT SEVERAL YEARS, AND CITED THE NEED FOR ADDITIONAL DOMESTIC STEEL PRODUCTION TO MEET INCREASED LOCAL DEMAND AND TO REDUCE FUTURE IMPORTS. SIDOR'S DIFFICULTIES WERE ATTRIBUTED TO OLD LIMITED OFFICIAL USE

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EQUIPMENT AND AN INEFFICIENT AND INEXPERIENCED LABOR FORCE. ON THE QUESTION OF INCREASED DEBT, THE FINANCE MINISTER CALLED ATTENTION TO THE FINANCIAL CONTRIBUTION THAT WOULD BE PROVIDED BY THE PRIVATE PARTNER IN THE STEEL PROJECT. THE MEP DEPUTY FROM ZULIA, ALTHOUGH SUPPORTING THE PROJECTS, CHARGED THAT THE PRESENT GOVT HAD "NEGLECTED THE ZULIA AREA FOR FOUR YEARS" AND WAS ONLY PUSHING THE PROJECT NOW TO BENEFIT THE AD PRESIDENTIAL CANDIDATE.

3. THE PROPOSALS FROM THEPOTENTIAL PARTNERS IN THE STEEL PROJECT ARE BEING STUDIED BY A SPECIAL COMMISSION COMPOSED OF THE MINISTER OF DEVELOPMENT, MINISTER SECRETARY TO THE PRESIDENCY, PRESIDENT OF SIDOR, PRESIDENT OF FIV, MINISTER DIRECTOR OF CORDIPLAN AND PRESIDENT OF CORPOZULIA. ACCORDING TO DIPLOMATIC AND TRADE CIRCLES,THE OFFERS MAY ALSO BE REVIEWED BY A SPECIAL COMMISSION OF PRIVATE BUSINESSMEN NOT CONNECTED WITH THE PRESENT GOVT. FOUR GROUPS HAVE PURPORTEDLY BEEN INVITED TO DISCUSS THEIR PROPOSALS IN DETAIL, (SEE CARACAS 1051 FOR COMPLETE LIST OF EACH CONSORCIA'S MEMBERS):

- (1) VOEST ALPINE/CREUSOT LOIRE
- (2) CEC ENTERPRISES/DAVEY ASHMORE
- (3) INTALSIDER/ITALIMPAINTI

(4) TEHCNODEPRO/KRUPP/KOPPERS

ACCORDING TO A SOURCE IN THE LAST GROUP, A TEAM OF 26 PERSONS,
INCLUDING EISENBERG, IS VISITING CORPOZULIA NEXT WEEK FOR DETAILED

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DISCUSSIONS. IN HIS CONGRESSIONAL TESTIMONY, FIV'S HURTADO
ESTIMATED A DECISION WOULD BE MADE AS TO PRIVATE PARTNER IN THE
STEEL PROJECT IN THE LAST HALF OF THIS YEAR.

4. CORPOZULIA AND FIV HAVE REACHED AN AGREEMENT FOR A STATE-
OWNED ENTITY TO CARRY OUT THE COAL PROJECT WITH CORPOZULIA
HOLDING 60 PERCENT OF THE SHARES AND FIV, 40. AMOUNT OF
CAPITALIZATION OF THE COMPANY, WHICH IS EXPECTED TO BE FORMALLY
CONSTITUTED IN ABOUT THREE MONTHS, HAS NOT BEEN DECIDED.

5. TAKING A PAGE FROM THE ORGANIZATION OF VENEZUELA'S PETROLEUM
SECTOR, THE MINISTER OF ENERGY AND MINES ANNOUNCED APRIL 7 THE
GOV'S INTENTION TO FORM A STATE-OWNED HOLDING COMPANY, WITH DIRECT
PARTICIPATION BY REGIONAL ORGANIZATIONS, TO EXPLOIT VENEZUELAN
COAL RESOURCES. MINISTRY OFFICIALS IN THE MINING DIVISION
INDICATED THAT THIS PROPOSAL IS IN THE FORMATIVE STAGE AND
DETAILS HAD NOT YET BEEN WORKED OUT AS TO ITS IMPLEMENTATION.

6. THE CALL FOR PREQUALIFICATION FOR THE ENGINEERING SERVICES
CONTRACT FOR THE CORPOZULIA COAL PROJECT HAS BEEN DELAYED FOR
SEVERAL MONTHS BECAUSE THE FIV HAD ASKED THE WORLD BANK TO STUDY
THE BASIC PARAMETERS OF COAL PROJECT (SITE SELECTION, USE OF COAL)
AND HAS NOT YET RECEIVED THEIR EVALUATION. A TEAM FROM THE
WORLD BANK IS EXPECTED TO VISIT CORPOZULIA DURING THE NEXT SEVERAL
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WEEKS. THE EISENBAU ESSEN (EE) FEASIBILITY STUDY INCLUDED THE OPEN PIT MINE, AND CERTAIN ASSOCIATED FACILITIES SUCH AS THE RAILROAD, AS WELL AS TESTING OF THE COAL FOR COKING SUITABILITY. THE EE STUDY WAS COMPLETED IN NOVEMBER 1977, AND COPIES HAVE NOT BEEN MADE PUBLIC. SOME OF THE INFORMATION CONTAINED IN THE FEASIBILITY STUDY HAS APPEARED IN REPORTS ON THE PROJECT ISSUED BY CORPOZULIA (THE STUDY IS CITED AS THE SOURCE FOR THE TECHNICAL ANALYSIS OF THE COAL CONTAINED IN THE "EXPOSITION OF MOTIVES" PAR 1, ABOVE). THERE IS DUPLICATION BETWEEN SOME OF THE SERVICES PRESENTLY BEING SOUGHT BY CORPOZULIA AND THOSE PROVIDED BY EE, SPECIFICALLY FOR EXAMPLE, ANALYSIS OF COAL QUALITY. IN GENERAL, HOWEVER, CORPOZULIA IS LOOKING FOR MORE DETAILED ENGINEERING WORK UNDER THE PROPOSED ENGINEERING SERVICES CONTRACT.

7. EIGHT US FIRMS - CONSOLIDATION COAL, DRAVO, FLOUR ENGINEERS, KAISER ENGINEERS, RALPH M PARSONS, PULLMAN TORKELSON, MORRISON-KNUDSEN, ST JOE MINERALS - ARE INTERESTED IN THE CORPOZULIA COAL PROJECT. TO THE EMBASSY'S KNOWLEDGE THOSE WHICH HAVE BEEN MOST ACTIVE RECENTLY ARE CONSOLIDATION COAL, DARAVO AND MORRISON-KNUDSEN. AMBASSADOR, AND OTHER EMBASSY OFFICERS, WILL AGAIN APPRISE APPROPRIATED GOV OFFICIALS OF US INTEREST IN HAVING US FIRM PARTICIPATE CORPOZULIA COAL DEVELOPMENT PROGRAM. END UNCLASSIFE.

8. BEGIN LOU. EMBASSY COMMENT: PROPOSED LEGISLATION STATES OPENLY WHAT WAS ASSUMED FOR SOME TIME: DECISION WITH REGARD TO ZULIA'S COAL AND STEEL PROJECTS AND RELATED INFRASTRUCTURE PROJECTS WILL BE MADE BY THE NATIONAL EXECUTIVE, EITHER DIRECTLY OR VIA ITS MINISTRIES AND AUTONOMOUS INSTITUTIONS, WITH CORPOZULIA IN THE DIFFICULT ROLE OF COORDINATING A DIVERSE MIX OF GOVT ENTITIES RESPONSIBLE FOR EXECUTING THE TWO PROJECTS. ONE POSSIBLE EXCEPTION TO THE PRIMARILY COORDINATING ROLE FOR CORPOZULIA IS THE COAL PROJECT, WHERE THE REGIONAL ORGANIZATION WOULD HAVE A CONTROLLING INTEREST IN THE STATE-OWNED COMPANY
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CARRYING OUT THIS PROJECT. EVEN IN THIS INSTANCE, HOWEVER, THE MINISTER OF ENERGY AND MINE'S PROPOSAL FOR A HOLDING COMPANY FOR COAL EXPLOITATION CAN BE SEEN AS AN EFFORT BY THE NATIONAL EXECUTIVE TO CREATE A FORMAL MECHANISM TO EXERCISE CONTROL OVER THIS PROJECT.

9. AS TO THE PARTNER, OR PARTNERS, FOR THE STEEL PROJECT, DIPLOMATIC AND TRADE CIRCLES GENERALLY RATE THE PRIMARILY BRITISH GROUP WITH DAVY ASHMORE AND THE TECNODEPRO/KRUPP GROUP AS THE FRONT RUNNERS AT THIS TIME. THE BRITISH ARE PUSHING HARD AND, AS BRIDESMAIDS IN THE COMPETITION FOR OTHER MAJOR PROJECTS, ARE REGARDED AS "DUE" FOR THIS ONE. (CONVERSELY THE BRAZILIAN GROUP'S CHANCES ARE NOT

REGARDED AS GOOD BECAUSE BRAZIL WAS AWARDED THE GURI DAM EXPANSION CONTRACT. THE TECHNODPRO/KRUPP GROUP IS FAVORED BECAUSE OF ITS STRONG LOCAL CONNECTIONS. THERE IS ALSO A SUPPOSITION THAT THE GOV COULD INVITE THE BRITISH AND TECHNODPRO GROUPS TO PRESENT A JOINT OFFER (THIS WOULD REDUCE THE EQUITY, AND RISK, FOR EACH OF THE PRIVATE PARTNERS).

10. WE SUSPECT THE BID TO PREQUALIFY FOR THE ENGINEERING SERVICES CONTRACT FOR THE COAL PROJECT WILL BE ISSUED ONLY AFTER FIV IS SATISFIED FROM THE WORLD BANK REPORT THAT THESE SERVICES ARE NEEDED, AT WHICH TIME THEY WILL AGREE TO FORMALLY CONSTITUTE THE COMPANY. THERE IS A DEFINITE FEELING AT CORPOZULIA THAT EISENBAU ESSEN DID NOT DO A GOOD JOB AND PORTIONS OF THEIR WORK SHOULD BE RE-DONE.

11. GIVEN THE DOMESTIC POLITICAL ASPECTS OF ZULIA'S COAL AND STEEL PROJECTS WE WOULD EXPECT EACH STEP IN THEIR DEVELOPMENT (PASSAGE OF THE FINANCING AUTHORITY, SELECTION OF THE PARTNER(S), FORMATION OF THE COAL COMPANY) TO BE TIMED FOR MAXIMUM IMPACT ON THE PRESIDENTIAL ELECTION CAMPAIGN. END LOU.
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